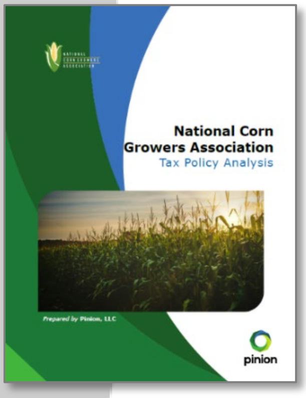
TAX POLICY IMPACT ON OHIO CORN GROWERS

Corn production is vital to Ohio's economy with Ohio's corn growers supporting diverse industries like ethanol production and livestock feed. In 2024, Ohio corn production yielded $2.41 billion from 3.17 million acres harvested.[1]

Effective tax policy is critical for Ohio's corn growers, impacting their growth, financial stability, profitability, and strategic planning. Favorable federal tax legislation helps these farmers reinvest in their operations, adopt new technologies, and efficiently navigate market fluctuations, ensuring the ongoing success and sustainability of corn farming in Ohio.

Ohio Corn	
Number of Corn Farms	10,200
Rank in U.S. Corn Production	8
Average Corn Farm Acreage	412
Average Gross Cash Farm Income	$348,208

Source: USDA Agricultural Resource Management Survey



Recent Legislation and Its Impact

The Tax Cuts and Jobs Act of 2017 (TCJA) included beneficial provisions for corn growers. However, many of these provisions are set to expire in 2025, prompting the need for careful legislative consideration. Further, with increasing competition from countries like Brazil and Argentina, maintaining advantageous tax policies is crucial for U.S. corn growers to remain competitive on a global scale.

Analysis of Tax Provisions

To assess the impact of potential expiration of TCJA provisions and other recent tax proposals, the National Corn Growers Association (NCGA) analyzed twelve tax provisions crucial to corn growers. This analysis was grounded in real-world data from diverse U.S. corn operations.

Findings indicate that key tax policies like the qualified business income deduction, 100% bonus depreciation, expanded estate tax exemption, and tax-free step-up in basis are vital for farms of all sizes. Changes to these policies could jeopardize the financial stability of corn farms. Based on the report findings, Ohio corn growers are most significantly impacted by:

- Bonus depreciation: The average Ohio farm would experience a tax increase of over $10,000 due to the loss of bonus depreciation, an increase of 114%.
- Qualified business income deduction: The average Ohio farm would experience a tax increase of $1,400 due to the loss of QBI, representing a nearly 30% tax increase.
- Like-kind exchanges: While there are typically few farmland transactions, when there are, many growers rely on deferral of gain under current rules. Limitations to gain deferral would result in tax increases to Ohio farmers.

[1] USDA National Agriculture Statistics Service

Summary of Key Findings

Section 179 Expensing: Section 179 expensing accelerates the recovery of business asset costs, encouraging investment in equipment and reinvestment in operations. While Section 179 expensing may mitigate some of the tax increases due to the loss of bonus depreciation, existing limitations on its availability will continue to prevent many growers from taking advantage of the provision.

Bonus Depreciation: 100% bonus depreciation allows immediate full deduction of qualifying asset costs, significantly improving cash flow and tax savings for corn growers. Especially given lower corn prices, yet rising equipment costs, corn growers find bonus depreciation critically important to help manage the cash outlays of high equipment needs.

Capital Gains Rates: Lower capital gains rates crucially affect profitability when corn growers sell assets or farmland, which is especially important for intergenerational transfers.

Qualified Business Income (QBI) Deduction: Section 199A allows non-corporate farms to deduct up to 20% of business income, significantly lowering tax liabilities and fostering reinvestment. Expiration would result in tax increases for nearly all producers, ranging from 29% to 210%.

Estate and Gift Tax: The estate tax exemption protects corn growers from heavy tax liabilities during asset transfers to the next generation. For those farms directly impacted by the estate tax, expiration of the TCJA's increased threshold could impose taxes of up to $1.1 million on affected operations.

Step-Up In Basis: This provision allows asset values to be stepped up to current market value at death, reducing capital gains taxes significantly for inherited farm assets. Elimination of this benefit could result in substantial tax impacts for heirs.

Cash Method of Accounting: Essential for day-to-day financial management, the cash method records transactions upon cash exchange. Restrictions could significantly burden larger operations (farming 2,000 acres or more), increasing their tax by $96,000 annually.

Ability to Deduct Prepaid Expenses: Allowing deduction of prepaid expenses like fertilizer enhances cash flow and reduces taxable income. Restrictions could lead to an average tax increase of $217,000 for larger operations surveyed (>2,000 acres).

Ability to Defer Recognition of Crop Insurance Proceeds: Deferring crop insurance proceeds allows better management of taxable income during financially demanding years. This resulted in an average income deferral of $478,000 per affected taxpayer surveyed.

Farm Income Averaging: Farm income averaging allows growers to mitigate tax impacts from sudden income spikes by taxing some current income at lower past-year rates. Over 70% of surveyed farms used farm income averaging to maintain predictable tax liabilities.

Like-Kind Exchanges: Growers benefit from deferring taxes on gains from exchanged assets until the sale of the replacement property. Ending this provision would compel growers to retain less optimal properties to avoid higher taxes.

Corporate Income Tax Rates: While few corn growers operate as corporations, those who do find the corporate income tax rate directly effects their financial health. An increase could cost main operating entities about $70,000 more annually.